

Message Text

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SUBJECT: TURKISH BASE NEGOTIATIONS - ASSISTANCE

REF: ANKARA 919, PARA 4

1. FOLLOWING IS EXPLANATION OF INTEREST RATE CHARGED ON
USG-GUARANTEED FMS LOANS PROVIDED THROUGH FEDERAL FINANCING
BANK, WHICH YOU MAY USE AT YOUR DISCRETION AS DISCUSSED SEP-
TEL IN RESPONDING TO GOT CONCERN THAT TERMS ON FMS-GUARANTEED
LOANS BE MORE FAVORABLE THAN THOSE PREVAILING ON COMMERCIAL
MARKET.

2. USG-GUARANTEED LOANS FROM FFB ARE EXTENDED FOR PERIODS
OF UP TO TEN YEARS AT A FIXED INTEREST RATE EQUAL TO COST OF
MONEY TO USG PLUS A SMALL ADMINISTRATIVE CHARGE. THIS
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CHARGE AT THIS TIME IS ONE-EIGHTH OF ONE PERCENT. THE ONLY

OTHER CHARGE TO THE BORROWER IS A ONE-TIME GUARANTY FEE OF ONE-FOURTH OF ONE PERCENT OF THE PRINCIPAL AMOUNT. INTEREST RATES ARE ESTABLISHED ON DATE OF EACH DRAWDOWN. AS AN ADMINISTRATIVE CONVENIENCE TO BORROWER, THE FFB WILL, AFTER THE LAST DRAWDOWN, CALCULATE A SINGLE RATE OF INTEREST ON ENTIRE LOAN BASED ON THE RATE ESTABLISHED FOR EACH DRAWDOWN. FOR EXAMPLE, THE FFB RECENTLY EXTENDED A 15 MILLION DOLLAR FMS LOAN FOR TEN YEARS AT 7.6 PERCENT. THIS RATE INCLUDED

THE ADMINISTRATIVE CHARGE. THE COST OF MONEY TO THE USG DURING THIS SAME PERIOD FOR LOANS OF COMPARABLE MATURITY WOULD HAVE BEEN SEVEN AND SEVEN-EIGHTS PERCENT. COST OF MONEY RATES ARE BASED ON THE AVERAGE MARKET YIELD DURING THE PREVIOUS MONTH FOR LOANS OF COMPARABLE MATURITY, WHEREAS THE FFB RATE IS BASED ON THE USG COST OF MONEY ON A SPECIFIC DATE OF DRAWDOWN. BOTH THE COST OF MONEY TO THE USG AND THE INTEREST RATE ON USG-GUARANTEED FMS LOANS THROUGH FFB ARE NORMALLY AT RATES BELOW INTEREST RATE PREVAILING ON COMMERCIAL MARKET FOR LOANS OF COMPARABLE MATURITY.

3. HOWEVER, MOST COMMERCIAL BANKS WOULD BE RELUCTANT TO OFFER TEN-YEAR LOANS TO DEVELOPING COUNTRIES. IF OFFERED, AND FOR LOANS OF SHORTER MATURITY, COMMERCIAL BANKS WOULD MOST LIKELY CHARGE A FLOATING RATE OF INTEREST CALCULATED AT TWO PERCENT ABOVE THE LONDON INTERBANK OFFERING (LIBO) RATE OR BANK'S PRIME RATE. LIBO RATE DURING TIME OF ABOVE-CITED 15 MILLION DOLLAR LOAN WAS SLIGHTLY ABOVE SIX PERCENT AND PRIME RATE WAS SLIGHTLY ABOVE SEVEN PERCENT. IN ADDITION, COMMERCIAL LENDERS NORMALLY ADD OTHER FEES TO THE INTEREST RATE FOR COMMITMENT, SYNDICATION, AND SERVICING WHICH CAN ADD AN ADDITIONAL ONE-FOURTH OF ONE PERCENT OR MORE TO COST OF BORROWING. UNLIKE FFB LOAN WHICH IS AT FIXED RATE, BORROWER ON COMMERCIAL MARKET FOR LOAN DESCRIBED ABOVE WOULD NOT KNOW TOTAL COST FOR LOAN UNTIL AFTER REPAYMENT IS MADE.

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